

## **MDP I Background**

At its August 17, 1998 meeting, the Investment Committee approved the concept of a Manager Development Program (MDP I) as a replacement for the then existing Small and Emerging Manager Program. The concept of the Manager Development Program is to provide venture capital and investment funds to emerging firms in exchange for a significant but minority equity stake in the selected firms.

At its October 19, 1998 meeting, the Investment Committee: (1) approved a partnership structure for the MDP I, with staff responsible for ongoing monitoring of CalPERS' assets managed by firms selected for the program; and (2) authorized staff to begin a focused solicitation process to select the external partner(s) to implement the program.

On May 20, 1999, the Investment Committee interviewed three firms and selected Strategic Investment Management and Progress Putnam Lovell as partners for the MDP I. Progress Putnam Lovell is a joint venture of Progress Investment Management and Highcrest California Partners (a subsidiary of Putnam Lovell NBF). In addition, the Investment Committee approved an allocation of \$2 billion to Strategic Investment Management and an allocation of \$1 billion to Progress Putnam Lovell.

Limited liability company agreements were finalized with both partners for both the venture and investment assets in April 2000. CalPERS committed \$40 million in venture capital funds for the Strategic Investment Group Ventures, LLC, while Strategic Investment Management committed \$2 million. Strategic has allocated \$7.8 million in venture capital among eight managers. In addition, CalPERS committed \$2 billion in investment assets to Strategic Investment Group Investments, LLC. Strategic has allocated \$1.7 billion among eight managers.

CalPERS also committed \$40 million in venture capital to Progress Putnam Lovell Ventures, LLC, while Progress Putnam Lovell committed \$404 thousand. Progress Putnam Lovell Ventures, LLC has allocated \$22.2 million among eight managers. In addition, CalPERS committed \$1 billion in investment assets to Progress Putnam Lovell Investments, LLC. Progress Putnam Lovell Investments, LLC has allocated \$850 million among eight managers.

In 2004, Highcrest California Partners (a subsidiary of Putnam Lovell NBF) reorganized into a new independent company, Lovell Minnick Partners LLC. The new firm is the successor to the private equity business formed in 1999 by Putnam Lovell co-founder Jeffrey D. Lovell. The restructuring provided Lovell Minnick with greater independence and freedom from

concerns about conflicts of interest with Putnam Lovell's other activities. Lovell Minnick Partners retained all employees working previously under Putnam Lovell Capital Partners. As a result of this transaction, the Progress Putnam Lovell partnership was renamed to Progress Lovell Minnick in 2005.

The term of the MDP I is seven years, but CalPERS and each partner can extend the program for up to five one-year extensions. The venture investment period has a three year time frame, which recently terminated in May 2003. The investment period for the investment portion ends at the seventh anniversary date, May 2007, but can be extended an additional five years.

The investment charters for the MDP I partners permitted investment in small and emerging investment management companies with less than \$2 billion under management, whose primary investment focus is in public equity and fixed income markets, and whose primary market focus is institutional clients. The limit on assets under management was increased from \$1 billion to \$2 billion by the Investment Committee at its February 19, 2002 meeting. This change increased the investment universe of firms that are California based and have independent ownership and/or women/minority ownership.

The investment charters prohibited investments in firms managing real estate, commodities, natural resources, or other non-financial assets.